

## Before the Illinois Commerce Commission

Direct Testimony of

Gordon J. Kraut, Jr.

On Behalf of

Cass Telephone Company

(ICC Docket Nos. 00-0233 and 00-0335)

April 20, 2001

OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-0233/0335  
*Cass*  
*Telephone Co.* 1.0  
Date 6-19-01 Reporter CB

1   **Q.   PLEASE IDENTIFY YOURSELF FOR THE RECORD.**

2   A.   My name is Gordon Kraut. I am a consulting manager with GVNW Consulting,  
3       Inc. GVNW Consulting, Inc.'s principal business is telecommunications  
4       consulting for small independent telephone companies. My business address is  
5       3220 Pleasant Run, Springfield, Illinois 62707.

6

7   **Q.   PLEASE PROVIDE YOUR EMPLOYMENT BACKGROUND.**

8   A.   I joined GVNW, Inc. on October 20, 1997. In my current position I consult with  
9       independent telephone companies and provide financial analysis and management  
10      advice in areas of concern to these companies. Specific activities include  
11      regulatory analysis, consultation on regulatory policy, financial analysis, market  
12      analysis, rate design and tariff development, long-range strategic planning and  
13      general management consulting services. Previously, I was employed by TDS  
14      TELECOM, as Manager of Revenue and Earnings in the Government and  
15      Regulatory Affairs Group, where my responsibilities were to manage the revenue  
16      and earnings processes, manage the development and implementation of earnings  
17      strategies, and oversee rate cases, regulatory audits, and earnings reviews for the  
18      TDS TELECOM companies. I also assisted in the regulatory review of telephone  
19      company operating and capital budgets, and ensuring that capital recovery  
20      objectives were achieved for TDS TELECOM operating companies.

21

22      In 1988, I began my telecommunications career with TDS, Inc., as an Internal  
23      Auditor. In this position, I conducted both operational and financial reviews of  
24      TDS, Inc.'s operating companies. In 1993, I was promoted to Senior Internal  
25      Auditor where I took a more active role in managing internal audits for the

1 company. In 1994, I was promoted to Associate Manager of Accounting in TDS  
2 TELECOM. My responsibilities included providing management with monthly  
3 reports on company financial results, troubleshooting and providing support to the  
4 region accounting staffs and helping determine accounting policy and procedures.  
5 Early in 1996, I was promoted to the position of Manager of Revenue and Earnings  
6 in the Government and Regulatory Affairs Group.  
7

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

9 A. I graduated from Edgewood College in May 1988 with a Bachelor of Science  
10 Degree in Business with an emphasis in Accounting. I was awarded a Masters in  
11 Business Administration from Edgewood College in 1991.  
12

13 **Q. HAVE YOU TESTIFIED BEFORE?**

14 A. Yes. I have provided testimony in the Commonwealth of Pennsylvania in rate  
15 cases for Sugar Valley Telephone Company and Mahanoy & Mahantango  
16 Telephone Company. I have also put in testimony on behalf of Citizens of  
17 Kecksburg also in Pennsylvania in a rural exemption case.  
18

19 **Q. ON WHAT COMPANY'S BEHALF IS THIS TESTIMONY SUBMITTED?**

20  
21 A. Cass Telephone Company.  
22

23 **Q. HAVE THE ILLINOIS UNIVERSAL SERVICE FUNDING**  
24 **CALCULATIONS FOR CASS TELEPHONE COMPANY USING THE**  
25 **FORMAT AGREED TO BY THE STAFF AND THE IITA BEEN**  
26 **PREPARED BY YOU OR SOMEONE UNDER YOUR DIRECT**  
27 **SUPERVISION?**  
28

1 A. Yes it has. It is attached as Cass Telephone Company Exhibit 1.0, Schedule 1.01  
2 and consists of three pages.  
3

4 **Q. DID YOU COMPLETE CASS TELEPHONE COMPANYS EXHIBIT 1.0,**  
5 **SCHEDULE 1.01 IN ACCORDANCE WITH THE INSTRUCTIONS AND**  
6 **BASED ON CASS TELEPHONE COMPANY'S ICC FORM 23A FILED BY**  
7 **THE COMPANY WITH THE COMMISSION FOR THE YEAR ENDED**  
8 **DECEMBER 31, 2000?**  
9

10 A. Yes, that is correct.  
11

12 **Q. BASED ON THE RESPONSES AND CONTENT OF CASS TELEPHONE**  
13 **COMPANY EXHIBIT 1.0, SCHEDULE 1.01, IS CASS TELEPHONE**  
14 **COMPANY PROVIDING STAFF WITH CERTAIN ADDITIONAL**  
15 **DOCUMENTS?**  
16

17 A. Yes. I am providing the Staff with a copy of Cass Telephone Company's  
18 December 31, 2000, Trial Balance and a copy of one Lease Agreement that Cass  
19 Telephone Company has with an Affiliate."  
20

21 **Q. HAVE YOU PROVIDED THE REQUISITE INFORMATION FROM CASS**  
22 **TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01 TO MR.**  
23 **SCHOONMAKER FOR HIS USE IN COMPILING THE COMPOSITE**  
24 **RESULTS FOR ALL COMPANIES SEEKING FUNDING IN**  
25 **CONNECTION WITH HIS TESTIMONY?**  
26

27 A. Yes, I have.  
28

1   **Q.    IS CASS TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01 TRUE**  
2       **AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**  
3       **INFORMATION AND BELIEF?**

4  
5   **A.    Yes, it is. You will note on page 2 of Schedule 1.01 that there is no activity in the**  
6       **13 month materials and supplies worksheet. Cass closes its work orders one time**  
7       **per year at year-end. Therefore, the only balances that are relevant to use are the**  
8       **beginning and ending balances.**

9  
10   **Q.    HAVE YOU MADE ANY ADJUSTMENTS TO CASS'S FINANCIAL**  
11       **DATA?**

12  
13   **A.    No, I have not.**

14  
15  
16   **Q.    DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON BEHALF**  
17       **OF CASS TELEPHONE COMPANY?**

18  
19   **A.    Yes, it does.**

**Cass Telephone Company**  
**Illinois Universal Service Funding Calculation**  
Based upon ICC Form 23A Report Data for December 31, 2000

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 2,195,389	\$ -	\$ 2,195,389
2	Materials and Supplies Inventory	Page 2, 13-Month Average	62,082		62,082
3	Customer Deposits	Form 23A, P 8, 4040	3,925	-	3,925
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	-	-	-
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			2,253,546
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	2,749,342	-	2,749,342
8	Less: Depreciation Expense	Form 23A, P 13, 6560	317,143	-	317,143
9	Total WC Operating Expense	line 7 - line 8	2,432,199	-	2,432,199
10	WC OE Requirement	line 9 * 45 / 360			304,025
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			304,025
13	Total Rate Base	line 5 + line 12			2,557,571
14	Total Operating Revenues	Form 23A, P 11, Total	3,147,792	-	3,147,792
15	Less: Illinois High Cost Fund		516,084	-	516,084
16	Net Operating Revenues	line 14 - line 15	2,631,708	-	2,631,708
17	Total Operating Expenses	Form 23A, P 14, Total	2,749,342	-	2,749,342
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	5,625	-	5,625
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	(123,259)	-	(123,259)
21	Income Tax Expense	line 34			(47,749)
22	Net Operating Income	line 20 - line 21			(75,510)
23	Return on Rate Base	line 22 / line 13			-2.95%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			286,704
26	Adj to Achieve Target Return on RB	line 25 - line 22			362,214
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			591,278
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			(123,259)
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			(8,850)
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			(114,409)
33	Federal Income Tax Expense	line 32 * 34.00%			(38,899)
34	Total Imputed Income Tax Expense	line 31 + line 33			(47,749)
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Cass Telephone Company  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000  
Material & Supplies Worksheet and Other Information

Line #		
1	December-99	\$64,416
2	January-00	\$64,416
3	February-00	\$64,416
4	March-00	\$64,416
5	April-00	\$64,416
6	May-00	\$64,416
7	June-00	\$64,416
8	July-00	\$59,360
9	August-00	\$59,360
10	September-00	\$59,360
11	October-00	\$59,360
12	November-00	\$59,360
13	December-00	\$59,360
14	13 Month Average	\$62,082

Sale/Lease Back Arrangement

- ☒ The company does not have any sale(s)/lease back arrangement.  
☐ The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates

- ☐ The company does not have any lease agreements with affiliates.  
☒ The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

**Cass Telephone Company**  
**Illinois Universal Service Funding Calculation**  
**Based upon ICC Form 23A Report Data for December 31, 2000**  
**Operating Revenues By Category**

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 417,516
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ -
3	State Access Revenues	Trial Balance 12/31/00	\$ 888,236
4	State High Cost Support	Exhibit X, Line 15	\$ 516,084
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 64,686
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 1,886,522
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 144,958
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 574,146
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 431,926
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 25,732
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 1,176,762
12	Misc Revenues	Trial Balance 12/31/00	\$ 84,508
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 3,147,792</u>